

# **School Facilities Board Five-Year Strategic Plan FY 2006- FY 2011**

**As of October 1, 2005**

## **Mission:**

To ensure that school buildings and equipment meet the appropriate guidelines for Arizona pupils to achieve academic success by providing financial and technical assistance.

## **Description:**

Created by Laws 1998, Fifth Special Session, Chapter 1, the School Facilities Board consists of nine voting members appointed by the Governor; in addition, the Superintendent of Public Instruction serves as a non-voting member. The Board is charged with administration of three capital funds: a) Building Renewal, b) Deficiencies Corrections, and c) New School Facilities. In order to effectively evaluate the State's school capital needs, the Board maintains a facilities database consisting of information reported by each school district. By extrapolating the school district data, the Board provides funding for building renewal and the construction of new facilities. Through periodic inspections, the Board will review adherence to established adequacy guidelines and maintenance of existing facilities. In order to assess the deficiency corrections requirement, a statewide assessment was conducted; the results of which were used to create a funding plan designed to bring existing facilities to comply with State standards by June 30, 2004. Three districts have deferrals for deficiency corrections projects until June 30, 2006.

## **Strategic Issues:**

### *Building Renewal*

The building renewal program as currently constituted is based on a formula that provides approximately 65 percent of the building replacement value over a 50-year period. Building renewal is distributed twice a year in lump sum amounts to school districts. While districts are required to submit a three-year building renewal plan and expenditure data, there is no state oversight on when dollars are actually expended or whether projects are even necessary. In many cases, districts save dollars year to year in anticipation of a future large expenditure. This disconnect between the amount produced by the formula in any given year and the actual expenditure need has for some weakened the credibility of the formula. The building renewal formula also provides funding whether or not the district is likely to drop below the minimum guidelines. This systematic fronting of funds transfers state resources to school districts before they are needed. Switching the focus to preventive maintenance should lengthen the lives and efficiencies of school building systems saving dollars for both the State and school districts.

The Building Renewal program funding was reduced by \$79.9 million in FY 2003, leaving \$38.3 million for distribution to school districts. In FY 2004, the formula was suspended and no funding was provided. In FY 2005, \$70 million was appropriated, in part through conditional appropriations.

For FY 2006, the formula has again been suspended and \$70 million provided for distribution. Starting in FY 2005, districts were required to submit their building renewal plan and expenditure data before the allocated Building Renewal dollars were released. During FY 2005, only 30 percent of the eligible districts submitted their plans in time for the November distribution. For all of FY 2005, only \$57 million of the \$70 million available was disbursed.

### *New School Construction*

**Funding Source** - The New Construction program has had no consistent funding source. In the past, the New Construction program has been funded on a cash basis from transaction privilege tax transfers. Beginning in FY 2003 and continuing through FY 2005, the Legislature replaced the School Facilities Board's authority to request transaction privilege tax transfers directly from the State Treasurer with the authority to enter into lease-to-own transactions. For FY 2006, the Legislature chose to fund the program by direct appropriations and provided \$246 million. The School Facilities Board currently has \$284 million in un-funded prior fiscal year projects and anticipates adding between \$220 and \$260 million in FY 2006. Since school districts control the actual cash flow for these awards, assumptions based on historical data must be used to project fiscal impact in future years. Additionally, the Legislature funded \$50.9 million in General Fund for lease payments in FY 2006 and must increase that amount to approximately \$75.7 million in FY 2007.

<b>Table 1 - SFB New Construction Awards</b>			
Fiscal Year	Projects	Square Footage	Dollars
2001	30	2,063,060	226,460,954
2002	37	1,927,102	200,980,391
2003	27	1,851,948	187,768,290
2004	41	2,907,172	319,600,513
2005	28	2,343,446	262,963,855

In conjunction with finding a permanent revenue stream, the School Facilities Board five-year outlook for new construction shows a continued need for new schools. However, the year-to-year awards can fluctuate widely. Table 1 shows the awards for the last five years. There are several reasons behind these fluctuations. First, the districts control when they seek new schools. Even if a district may

qualify for a school, until they submit a capital plan the SFB cannot award one. Second, since the program is based on student projections, inaccuracies in a given year are corrected in subsequent years. If the a school is awarded one year early, then that year's awards are artificially high and the next year's are low. If a school is awarded one year late, then the current year total awards are low, and the next year's awards are high. Finally, as shown in Table 2, student growth itself fluctuates from year to year.

**Demographic Growth** - Approved projects reflect an underlying student population growth that breaks down as follows:

Table 2  
Percentage of Student Growth  
FY 2002-FY 2005<sup>1</sup>

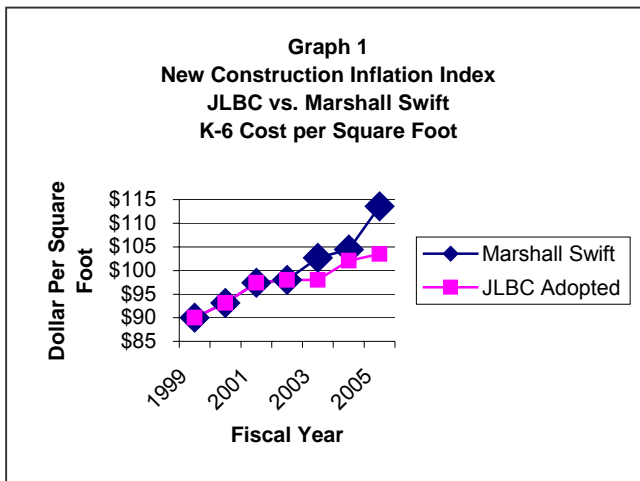
Fiscal Year	Annual Growth Rate
FY 2002	2.04%
FY 2003	2.22%
FY 2004	1.88%
FY 2005	3.01%

The growth metric is based on attending ADM provided by the Department of Education as of 9/9/05. The numbers include District Schools and Accommodation schools only. Charter Schools and JTED's are not included.

These growth numbers reflect students that enter a grade range through ageing and migration. The School Facilities Board staff estimates that this growth pattern will be localized in approximately 50 school districts, mainly in Maricopa, Pinal, and Yuma counties. Staff's current estimates show a general continuation of this growth pattern over the next five-years.

Translating statewide growth projections into actual new construction awards remains difficult. As shown in Table 2, the State experienced significant jumps in the statewide growth rate in FY 2003 and FY 2005. Following the FY 2003 population increase, the Board experienced the largest number and value of new school awards. Since FY 2005 experienced an even larger growth rate, staff should anticipate a higher than average new construction cycle. However, the conceptual plan approved by the Board last spring that incorporated the FY 2005 growth figures showed an expected reduction in awards. This discrepancy indicates that statewide growth does not necessarily translate to a new construction need. Other factors including prior awards, existing district space, and which

districts actually experience the growth all contribute to new construction awards.



*Inflation* – The statute that implemented Students' FIRST tasked the Joint Legislative Budget Committee (JLBC) with making inflation adjustments to the established costs per square foot. From FY 2000 to FY 2002, the committee used the Marshall Swift index developed for masonry buildings in Phoenix. In FY 2003, the committee switched to a national index for government facilities published by the Federal Commerce Department. As Graph 1 Indicates, between FY 2003 and FY 2005, the

national index was significantly lower than the local index. In FY 2005, the average award was reduced by \$900,000 because of the shift in indexes. This reduction in funding has significantly impacted the districts' ability to construct schools within the established funding formulas. The SFB staff has requested the JLBC to make future adjustments based on the Marshall Swift index and to provide retroactive adjustments to realign the dollars per square foot with the local construction market.

### *Deficiency Corrections*

As of June 30, 2005 only two of the 5,241 initial projects remained incomplete. Both of these projects are scheduled to be completed in the opening months of FY 2006. Of the 309 deferred projects 182 had reached completion. The remaining projects must be completed by June 30, 2006.

The SFB also plans to complete the audit of the Deficiency Corrections program during FY 2006.

*Emergency Deficiency* – After FY 2006, the main Deficiency Correction program will be repealed. However, the SFB will continue to provide emergency deficiency services through the Emergency Deficiency program. The main issue facing this program is the development of a definition for emergency. The Board has recently asked for legal guidance on this issue and will continue to put policy in place to define the parameters of this program.

### *Preventive Maintenance*

In order to protect the State's \$1.3 billion deficiencies corrections and the \$1.9 billion (to date) new school construction investment, the Legislature directed the School Facilities Board to help school districts establish preventive maintenance (PM) programs and then perform inspections to review the implementation of those programs. The School Facilities Board has adopted a general set of preventive maintenance guidelines, and 210 of 216 school districts have submitted required preventive maintenance plans based on those guidelines. Of the 210 districts with plans in place, 156 have submitted their compliance reports for FY 2005. These reports indicate that on average, about 45 percent of the established preventive maintenance tasks were completed.

The School Facilities Board will continue to work with school districts and the Legislature to ensure that the resources necessary to properly maintain the State's schools are made available and properly used. Currently, the law does not provide dedicated state funding for preventive maintenance.

### *Full Day Kindergarten*

For FY 2006, the Legislature provided \$4 million for distribution of capital grants to schools included in the second year phase in of full-day kindergarten. The Joint Legislative Committee on Full Day Kindergarten recommended changing the New Construction formula to count a kindergarten student as a full ADM. Current law views a kindergarten student as half ADM. If changed, the SFB staff estimates this would require the Board to approve \$182 million in new space in FY 2007. This space would be built and financed over multiple years. The first fiscal impact would be in FY 2007 estimated at \$9.1 million.

## **Goals:**

### ***Building Renewal***

- To effectively administer the building renewal program.

### ***New Construction***

- To ensure that all school districts receive adequate funding to meet the statutory per pupil minimum square footage requirements, including full-day kindergarten.

**Deficiency Correction**

- To ensure that all school districts comply with the minimum adequacy standards through June 30, 2006.

**Preventive Maintenance**

- To increase the level of preventive maintenance performed in the school districts.

**Strategies:**

<b>Building Renewal Strategies</b>	
<b>Goal:</b>	To effectively administer the Building Renewal formula.
<b>Strategies:</b>	<ol style="list-style-type: none"> <li>1. Distribute money as required by law.</li> <li>2. Accurately maintain the school facilities inventory database.</li> <li>3. Link expenditure reports with approved three-year plans to facilitate reviewing expenditure data.</li> <li>4. Assist districts in developing three-year building renewal plans.</li> <li>5. Assist in reviewing the appropriateness of the existing formula.</li> </ol>

<b>New School Construction Strategies</b>	
<b>Goal:</b>	To ensure that all school districts receive adequate funding to meet the statutory per pupil minimum square footage requirements.
<b>Strategies:</b>	<ol style="list-style-type: none"> <li>1. Analyze the ADM projections and capital plans from the districts within six months of receipt.</li> <li>2. Assist in identifying a permanent funding source.</li> <li>3. Continue to make project payments in a timely and efficient manner.</li> </ol>

<b>Deficiency Correction Strategies</b>	
<b>Goal:</b>	To ensure that all school districts comply with the minimum adequacy standards.

<b>Strategies:</b>	<ol style="list-style-type: none"> <li>1. Secure the funding necessary to complete the program.</li> <li>2. Continue working with the districts to correct identified projects.</li> <li>3. Complete the deferred projects within the new statutory time frame of June 30, 2006.</li> <li>4. Implement the Inspection Program to inspect school district facilities every five years.</li> <li>5. Continue to administer the Emergency Deficiencies program as needed.</li> </ol>
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<b>Preventive Maintenance Strategies</b>	
<b>Goal:</b>	To increase the level of preventive maintenance performed in school districts.
<b>Strategies:</b>	<ol style="list-style-type: none"> <li>1. Assist school districts in the preparation and submittal of required preventive maintenance plans.</li> <li>2. Review annual preventive maintenance school district reports.</li> <li>3. Inspect the required number of schools on an annual basis.</li> <li>4. Work with districts and the Legislature to ensure that the resources necessary to properly maintain the State's schools are made available and properly used.</li> </ol>

# Attachments:

- 1.Resource Assumptions
- 2.Building Renewal/Preventive Maintenance – Incremental Needs
- 3.New School Facilities – Incremental Needs
- 4.Deficiency Correction – Incremental Needs
- 5.Emergency Deficiency